Nutrient Trading Program Notes
September 25, 2015 Meeting
10:00 AM – 1:15 PM

Agenda

1. Introductions
2. Ground rules
3. Group Goals Statement
4. Lessons Learned from the Conference
5. Changes to notes from last month's meeting
6. Species for Trading
7. Trading Margins
8. Liability
9. Extreme Events and Responsibility
10. Discussion of baseline and practices work groups
11. Homework
12. Closing

Ground Rules for Discussion and Approval

1. We will operate according to informed consent. This requires understanding. These require patience and cooperation.
2. We must agree on common goals, language and tenets to make clear recommendations.
3. Where no common agreement occurs, we must reflect the diversity of opinion in our report to the commission.
4. All discussions will be civil and constructive.
5. We need a breadth of expertise and opinions to create the best framework possible.
6. We will allow those with the best information to inform us while respecting differences in opinion.
7. We will be transparent and welcoming.
8. We will work through the factors that will form the framework in an orderly fashion recognizing that we may have to revisit some or all of them at the end to ensure the final recommendations are both robust and supported on the basis of informed consent.
9. The facilitator accepts responsibility for ensuring that these rules are followed.

(No changes were made in the ground rules from the last meeting.)

The group asked the department to create a broader Goals Statement that supported water quality trading. The department offers the following as a draft for consideration

The department and those stakeholders participating in this work group strongly support the establishment of water quality trading in Missouri as one of the tools to help meet local and state-wide water quality goals. For water quality trading to occur, we agree to create a framework that is effective, efficient and equitable for all those who wish to form a water quality trading program and to buy and sell within a trading program. The state should seek to form a common infrastructure to support trading programs in order to keep these costs to a minimum.

Trading programs will function best when adapted to and driven by local water quality conditions and specific water quality goals. Integrating water quality trading into watershed planning provides a straightforward way to ensure that water quality trading provides both economic and water quality benefits.

This framework will be presented to the Clean Water Commission for its review and to allow public comment. Once edited based on the comments received and responses from the work group members and approved by the Commission, the framework will define the basic elements of a water quality trading program and the considerations to be addressed in applying to establish such a program. Proposals to operate a water quality trading program will go before the Clean Water Commission and be subject to public comment and departmental review before approval. The group supports piloting a few water quality trading programs and then revisiting the framework before formalizing the required program elements.

Lessons Learned at the Water Quality Trading Workshop in Lincoln, NB.

Summary:
All who attended thought highly of the information presented at the workshop with many examples and advice coming from those who have established and are operating trading programs. These presentations will be made available on-line in the near future.

Among the themes mentioned was the need for a driver for trading, the importance of developing relationships between the point and non-point source communities, the importance of simplicity to success.

The importance of knowing and quantifying demand in advance was stressed. Stakeholders thought that one way to determine the potential supply of credits was to engage with farmers ahead of developing the program. The use of verified models, the establishment of clear rules through a stakeholder process, and simplicity tend to build trust in trading.

Joe stepped out of his role as facilitator to share the "risk triangle" with the group with buyers, sellers and the state (representing the interest in water quality) at the three vertices. Each decision made in developing the framework and subsequent water quality trading programs will influence the shape and size of the triangle, illustrating the decision's impact on overall risk and risk distribution. Information sharing (transparency) and trust are critical to managing risk and the perception of risk.

No changes were made to the summary of last month's meeting.

Species for Trading

The following **considerations** were offered with regard to the species to be traded:

- The chemical species to be traded;

- The units for measuring each pollutant traded;
- Determine whether the proper measure is concentration or loading;
- Determine whether loads or concentrations would be averaged annually or over a shorter period;
- Support for and mechanisms for determining proper cross-pollutant trading.

The following **decisions** were made:

1. Allow trading of all species allowed to be traded by the Clean Water Act.
2. The decision about trading loading amounts, concentration or other units will be based on the species to be traded and the local water quality driver for trading.
3. In general loading will be annual loading to provide the greatest flexibility and to recognize the seasonal variability of some pollutants from some sources.
4. Cross pollutant trading may be used in the future, but initial programs should avoid this.

Trading Margin

The following **considerations** were offered with regard to the trading margin to be used:

- EAP guidance on this topic as presented in the Willamette report and at the workshop in Lincoln;
- Define the bottom of the trading range (baseline);
- Define the top of the trading range;
- The margin variation with species.

The following **decisions** were made:

1. The top of the trading range will be unrestricted to allow the greatest flexibility in trading while supporting water quality goals.
2. The bottom of the range will be defined by the two work groups focused on point source and non-point source baselines.
3. The EPA guidance, as indicated on pages 55 and 56 of the Willamette Report provide a good basis for these decisions.
4. No reason was presented to vary the trading margin based on species.

Liability

The following **considerations** were offered with regard to liability:

- The need to address failed practices;
- The concept of insurance credits to ensure that the minimum number of credits is available at all times;
- Financial agreements between buyers and sellers;
- The use of contractual or conservation easements;
- Balancing the risk between the credit and debit side of the trading ledger.

The following **decisions** were made:

1. The concept of insurance credits available was supported.
2. While the group discussed financial, contractual and conservation easements, none was identified as required. Each program should establish its own instruments to suit its situation and risk tolerance.

3. The risk a failed practice or trade is borne by the permitted entity and this should be incorporated into the program's planning.

Extreme Events

The following **considerations** were offered with regard to extreme events:

- The need to define an extreme event and incorporate it into the program;
- Extreme events are defined in many permits already for rainfall events, but not so for other potential events;
- There is a temporal component to these definitions;
- The acceptance of a recovery time from an extreme event and how that impacts trading;
- Accomplishing the reporting and accounting of these events and their impacts.

The following **decisions** were made:

1. Many extreme events are defined either in permit conditions or, for many agricultural practices, by federal declarations. These should be used rather than creating new definitions that would add confusion to trading programs.
2. Additional extreme events will be defined through national disaster or other declarations.
3. Some extreme events may be left undefined and will have to be judged on a case-by-case basis.

Draft of the agenda for the next meeting:

1. Introductions
2. Review of Ground Rules
3. Review of Notes from September 25, 2015 Meeting
4. Existing Trading Programs – John Madras
5. Monitoring
6. How do we measure and who measures?
   What is the role of modeling and who is responsible for it?
   Who is responsible for calibration and adjustments?
   Who does the accounting and what tool(s) are used?
7. Enforcement
   How do we deal with failed trades?

8. Regulatory instruments
   What regulations or statute changes are needed?
   Structure of infrastructure and programs
   Privacy
   Enabling the department to act
   Funding

9. Questions or needed guidance from Point and Nonpoint Subgroups on Baselines and Eligibility
10. Conclusions and Path Forward
11. Future Meetings and Tentative Topics

• November 20, 2015, location Lewis & Clark State Office Building, 1101 Riverside Dr., Jefferson City, Missouri

Setting Baselines (Point and non-point sources)
Recommendations
Practices (Point and non-point sources)
Recommendations

• December 18, 2015 meeting cancelled

• January 22, 2016, location Lewis & Clark State Office Building, 1101 Riverside Dr., Jefferson City, Missouri

Trading Ratios
What should be the trading ratio to balance risk, practicality, Water quality concerns?
Role and responsibilities

- Future

How does the proposed framework operate?
Does the market structure fill the needs of the market?
Summary and rejiggering, as needed
Adaptive Management
How do we change as needed?
Updates on practice performance?
How do we adapt to market changes?